

Message Text

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PAGE 01 ISLAMA 00113 040628Z

16

ACTION NEA-12

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

DODE-00 INR-10 NSAE-00 PA-04 USIA-15 PRS-01 INT-08

COME-00 FRB-02 XMB-07 OPIC-12 LAB-06 SIL-01 DRC-01

/158 W

----- 014872

R 040508Z JAN 74

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 2704

INFO AMCONSUL KARACHI

AMCONSUL LAHORE

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E.O. 11652: N/A

TAGS: EIND, ETRD, PK

SUBJ: PAK REQUEST FOR INCREASED FERROUS SCRAP

ALLOCATION

REF: STATE 244603

1. SUMMARY. THE PATTERN OF PAKISTAN'S STEEL IMPORTS HAS BEEN CHANGING RADICALLY DURING LAST FEW YEARS, SO THAT HISTORICAL IMPORTS OF SCRAP ARE UNRELIABLE AS GUIDE TO CURRENT AND FUTURE NEEDS. REQUIREMENT IS STILL SHIFTING DRAMATICALLY FROM STEEL BILLETS TO SCRAP. INFLATION, ALREADY AT 30 PERCENT IN LAST TWELVE MONTHS, WILL BE FURTHER FUELED BY SHORTAGE OF STEEL, WHILE FLOOD RELIEF NEEDS NOW ALSO ADDED. ACTION REQUESTED: FAVORABLE CONSIDERATION OF PAKISTAN'S REQUEST FOR GREATER ALLOCATION OF SCRAP. END SUMMARY.

2. WITH ASSISTANCE OF KARACHI AND LAHORE WE HAVE LOOKED
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PAGE 02 ISLAMA 00113 040628Z

INTO PAK REQUIREMENTS FOR FERROUS SCRAP AND STRONGLY

BELIEVE THAT 7,000 TONS NOW ALLOCATED TO PAKISTAN FOR FIRST QUARTER OF CY-1974 IS SERIOUSLY INADEQUATE. IN FY-1973, ACCORDING TO FIGURES AVAILABLE HERE, PAKISTAN IMPORTED ABOUT 50,000 TONS OF SCRAP FROM US OUT OF TOTAL IMPORTS OF 110,000 TONS. HOWEVER, DURING LAST HALF OF FY 1973 SCRAP PRICES WERE SO HIGH THAT LITTLE WAS IMPORTED, AND DURING PAST SIX MONTHS US SCRAP HAS BEEN UNAVAILABLE AT ANY PRICE CAUSING CONSIDERABLE HARDSHIP.

3. DURING LAST FEW YEARS, THERE HAS BEEN A CHANGE IN PATTERN OF PAKISTAN'S STEEL REQUIREMENTS. NUMBER OF SMALL ARC FURNACES IN PAKISTAN HAS INCREASED RAPIDLY WITH PRESENT INSTALLED CAPACITY NOW AT ROUGHLY 400,000 TONS. FOR EXAMPLE, PAKISTAN ENGINEERING COMPANY IN PUNJAB HAS COMMISSIONED TWO ADDITIONAL FURNACES AND WILL BE MAKING OWN BILLETS, THUS REPORTEDLY INCREASING ANNUAL REQUIREMENTS TO 70,000 TONS OVER PREVIOUS 20,000 TONS SCRAP. THESE FURNACES ARE COMPLETELY DEPENDENT ON SCRAP AS RAW MATERIAL. DURING FIRST COUPLE OF YEARS AFTER NEW ARC FURNACES WERE SET UP, THEY TO LARGE EXTENT USED SCRAP WHICH HAD ACCUMULATED IN PAKISTAN OVER PAST DECADES. THESE STOCKS RAN OUT IN 1972. ALREADY MANY FURNACES HAVE BEEN CLOSED DOWN OR ARE WORKING ONLY INTERMITTENTLY BECAUSE OF SHORTAGES.

4. HISTORICAL FIGURES ON IMPORTS OF SCRAP ARE UNRELIABLE AS GUIDE TO FUTURE NEEDS. WE ESTIMATE THAT THERE IS NOW PAK NEED FOR AT LEAST 200,000 TONS PER ANNUM OF US SCRAP, SINCE US IS NOW VIRTUALLY ONLY LARGE SUPPLIER.

5. BILLET EXPORTS. WE AGREE WITH MASOOD ASGHAR THAT US BILLET EXPORTS TO PAKISTAN OVER PAST YEARS SHOULD BE INCLUDED IN CALCULATIONS FOR DETERMINING SCRAP ALLOCATION. BEFORE ESTABLISHMENT OF NEW ARC FURNACES, PAKISTAN IMPORTED BILLETS FOR ROLLING MILLS, WHICH HAD BEEN SET UP AT EARLIER DATE. NOW ROLLING MILLS USE PRODUCTION OF SCRAP-CONSUMING ARC FURNACES, RATHER THAN BILLETS IMPORTED PREVIOUSLY. REQUESTS FOR USAID FINANCING OF STEEL BILLETS, WHICH HISTORICALLY HAVE BEEN ABOUT \$5 MILLION YEARLY, NOW ZERO. FOR EXAMPLE, PAKISTAN ENGINEERING COMPANY CITED PARA 3 PREVIOUSLY USED 10,000 TONS OF BILLETS, BUT WILL NOW BE LIMITED OFFICIAL USE

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PAGE 03 ISLAMA 00113 040628Z

MAKING ITS OWN FROM SCRAP, THEREBY IN PART ACCOUNTING FOR INCREASED NEEDS CITED ABOVE.

6. CUTTING ARC FURNACES ENTIRELY OUT OF ECONOMY AND RESORTING TO SEMI-FINISHED BILLETS FOR RAW MATERIAL TO SUPPLY ROLLINGS MILLS AT THIS POINT WOULD BE PROHIBITIVELY EXPENSIVE AND UNECONOMIC. FURTHERMORE, US STEEL BILLETS VIRTUALLY UNAVAILABLE FOR IMPORT TODAY.

7. INFLATION IS A SERIOUS PROBLEM IN PAKISTAN NOW.

DURING LAST 12 MONTHS PRICES HAVE RISEN OVER 30 PERCENT AND ARE STILL RISING. WHILE WE REALIZE FERROUS SCRAP ONLY ONE OF THE COMMODITIES, IN SHORT SUPPLY, IT IS BASIC AND IMPORTANT.

8. FLOOD RELIEF. STEEL REQUIREMENTS HAVE ALSO INCREASED BECAUSE OF NEED TO REPLACE WASHED-OUT CONCRETE BRIDGES USING REINFORCED CONCRETE, AS WELL AS FOR REBUILDING HOUSING AND UTILITIES DAMAGED BY FLOODS.

9. FREIGHT COSTS. INDUSTRY SOURCES HAVE POINTED OUT, WE BELIEVE WITH JUSTIFICATION, THAT SHIPMENT OF ONLY 7,000 TONS SCRAP, CONSTITUTING PARTIAL SHIPLOAD, WOULD COST PROHIBITIVE \$75 TO \$80 PER TON IN FREIGHT CHARGES, WHILE ENTIRE SHIPLOAD OF 20,000 TONS WOULD COST ONLY ABOUT \$30 PER TON IN FREIGHT. HENCE ON TECHNICAL BASIS OF FREIGHT COSTS ALONE QUARTERLY ALLOCATION SHOULD BE RAISED AT MINIMUM TO 20,000 TONS. A SMALLER ALLOCATION ACTUALLY PENALIZES PAKISTAN FOR U.S. PROCUREMENT.

10. U.S. INTEREST IN PAK ECONOMY. WE BELIEVE CASE FOR INCREASED SCRAP ALLOCATION FOR PAKISTAN SHOULD BE PUT IN BROAD PERSPECTIVE OF OUR OVERALL ECONOMIC RELATIONSHIPS. SINCE INDEPENDENCE WE HAVE PUT ALMOST \$4.6 BILLION IN ECONOMIC ASSISTANCE INTO PAKISTAN. DURING PERIOD SINCE BHUTTO CAME TO POWER WE HAVE PROVIDED MORE THAN \$400 MILLION IN ECONOMIC ASSISTANCE. IT WOULD BE TO ACT IN CONFLICT WITH OUT INVESTMENT IN ECONOMIC ASSISTANCE HERE VIRTUALLY TO SHUT OFF SUPPLIES U.S. SCRAP, WHICH PROPOSED ALLOCATION OF 7,000 LIMITED OFFICIAL USE

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PAGE 04 ISLAMA 00113 040628Z

TONS WOULD EFFECTIVELY DO. THIS ALLOCATION, ON ANNUAL BASIS WOULD CONSTITUTE A MORE THAN 40 PERCENT REDUCTION BELOW WHAT WE SHIPPED TO PAKISTAN IN FY-1973, AND CAN BE EXPECTED TO HAVE VERY SERIOUS EFFECT ON INDUSTRIAL SECTOR.

11. U.S. MISSION RECOMMENDS STRONGLY THAT AN ADEQUATE INCREASE BE MADE IN QUANTITY OF US SCRAP NOW ALLOCATED TO PAKISTAN FOR FIRST QUARTER OF 1974. WE BELIEVE THAT ALLOCATION SHOULD BE INCREASED TO AT LEAST ONE FULL SHIPLOAD OF 20,000 TONS DURING FIRST QUARTER AND PREFERABLY TO 50,000. TONS.
WASHINGTON DECON UPON RECEIPT
INFO ADDRESSEES DECON 6/30/87
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: STEEL, IMPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 04 JAN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ISLAMA00113
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: ISLAMABAD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740162/aaaacgra.tel
Line Count: 168
Locator: TEXT ON-LINE
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: STATE 244603
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 22 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 AUG 2002 by shawdg>; APPROVED <29-Aug-2002 by MorefiRH>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PAK REQUEST FOR INCREASED FERROUS SCRAP ALLOCATION
TAGS: EIND, ETRD, PK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005